

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 4, 2006 Through April 2, 2007**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
SHELBY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 4, 2006 Through April 2, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Shelby County Sheriff for the period April 4, 2006 through April 2, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$27,355,235 for the districts for 2006 taxes, retaining commissions of \$665,018 to operate the Sheriff's office. The Sheriff distributed taxes of \$26,601,300 to the districts for 2006 taxes. Taxes of \$3,660 are due to the districts from the Sheriff and refunds of \$3,636 are due to the Sheriff from the taxing districts.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of October 31, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$10,830,594

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Rob Rothenburger, Shelby County Judge/Executive

Honorable Mike Armstrong, Shelby County Sheriff

Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the Shelby County Sheriff's Settlement - 2006 Taxes for the period April 4, 2006 through April 2, 2007. This tax settlement is the responsibility of the Shelby County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Shelby County Sheriff's taxes charged, credited, and paid for the period April 4, 2006 through April 2, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable Rob Rothenburger, Shelby County Judge/Executive

Honorable Mike Armstrong, Shelby County Sheriff

Members of the Shelby County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

June 29, 2007

SHELBY COUNTY
MIKE ARMSTRONG, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 4, 2006 Through April 2, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,524,852	\$ 4,387,072	\$ 14,580,451	\$ 2,911,541
Tangible Personal Property	208,961	325,935	1,183,313	958,048
Increases Through Exonerations	894	1,491	5,165	3,109
Franchise Taxes	158,265	250,843	921,149	
Additional Billings	1,373	1,167	7,812	5,224
Change of District		354		
Penalties	13,533	23,468	77,910	14,888
Adjusted to Sheriff's Receipt	1,489	1,204	8,470	(53)
Gross Chargeable to Sheriff	<u>2,909,367</u>	<u>4,991,534</u>	<u>16,784,270</u>	<u>3,892,757</u>
<u>Credits</u>				
Exonerations	20,297	31,143	116,411	32,394
Discounts	42,487	73,558	244,989	61,937
Delinquents:				
Real Estate	39,126	65,862	225,941	45,118
Tangible Personal Property	1,611	1,949	9,165	5,452
Change of District		76		
Franchise Taxes	<u>24,513</u>	<u>40,912</u>	<u>139,752</u>	
Total Credits	<u>128,034</u>	<u>213,500</u>	<u>736,258</u>	<u>144,901</u>
Taxes Collected	2,781,333	4,778,034	16,048,012	3,747,856
Less: Commissions *	<u>118,494</u>	<u>146,233</u>	<u>240,720</u>	<u>159,571</u>
Taxes Due	2,662,839	4,631,801	15,807,292	3,588,285
Taxes Paid	2,655,170	4,614,958	15,754,154	3,577,018
Refunds (Current and Prior Year)	<u>9,089</u>	<u>15,420</u>	<u>51,796</u>	<u>12,589</u>
Due Districts or (Refunds Due Sheriff) as of		**		
Completion of Fieldwork	<u>\$ (1,420)</u>	<u>\$ 1,423</u>	<u>\$ 1,342</u>	<u>\$ (1,322)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
 MIKE ARMSTRONG, SHERIFF
 SHERIFF'S SETTLEMENT – 2006 TAXES
 For The Period April 4, 2006 Through April 2, 2007
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	9,548,507
1.5% on	\$	16,048,012
1% on	\$	1,748,716

** Special Taxing Districts:

Library District	\$	(219)
Health District		68
Extension District		66
Landfill		(326)
Plum Creek Watershed District		21
Mt. Eden Fire District		(46)
Shelby Surburbon Fire District		2,162
Simpsonville Fire District		(301)
Long Run Fire District		1
Peewee Valley Fire District		<u>(2)</u>

Due Districts or		
(Refunds Due Sheriff)	\$	<u><u>1,423</u></u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENT

April 2, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SHELBY COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 2, 2007
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2006, \$10,830,594 of public funds were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$10,830,594

Note 4. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2006 through April 2, 2007.

Note 5. Interest Income

The Shelby County Sheriff earned \$52,085 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 6. Sheriff's 10% Add-On Fee

The Shelby County Sheriff collected \$103,183 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Shelby County Sheriff collected \$4,965 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 8. Tax Escrow Account

The Sheriff has four accounts with balances resulting from unrefundable duplicate payments and unexplained receipts over the last four tax years. The balances in the four accounts are as follows as of April 2, 2007:

- 2003 Tax Year Account Balance \$3,062
- 2004 Tax Year Account Balance \$4,813
- 2005 Tax Year Account Balance \$ 487
- 2006 Tax Year Account Balance \$3,346

According to KRS 393.090, property is assumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer pursuant to KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Rob Rothenburger, Shelby County Judge/Executive
Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Shelby County Sheriff's Settlement - 2006 Taxes for the period April 4, 2006 through April 2, 2007, and have issued our report thereon dated June 29, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelby County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Sheriff's Settlement - 2006 Taxes for the period April 4, 2006 through April 2, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Shelby County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 29, 2007

COMMENT AND RECOMMENDATION

SHELBY COUNTY
MIKE ARMSTRONG, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 4, 2006 Through April 2, 2007

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties over receipts. The bookkeeper opens the mail, collects payments from customers, records receipts, prepares the deposit, and reconciles the bank account. To achieve a proper segregation of duties, the three processes of accepting receipts, recording receipts, and reconciling receipts should be performed by three separate employees. If three separate employees are not available to perform these three different tasks, certain compensating controls could be implemented to mitigate this control weakness. Some compensating controls would include:

- The Sheriff should compare the daily deposit with the daily checkout sheet. The Sheriff should investigate any variances. This review should be documented with the Sheriff's initials on the daily checkout sheets.
- The Sheriff should review the receipts ledger and compare with the amounts verified when checking the daily deposits. This review should be documented with the Sheriff's initials on the receipts ledger.
- The Sheriff should review the bank reconciliation and compare the amount shown as deposited on the bank statement for the month to the receipts ledger. This review should be documented with the Sheriff's initials on the bank reconciliation.

Sheriff's Response: No Response.

